



Enhanced-Use Lease

– Business Model and Case Study

Enhanced-Use Leasing

- *Innovative Legislation*
- *Financing/Ownership Options*
- *Incorporating DG/CHP*
- *Case Study – VA's Mountain Home Energy Center*
- *Lessons Learned*



Innovative Legislation



- VA – 38 USC 8161-8167 and Millennium Healthcare Act
- DOD – 10 USC 2667
- NASA – PL 108-7 (sec. 315)

Financing/Ownership Options

- A cooperative arrangement with government entity or private sector developer
- Based on a long-term outlease of underutilized assets
 - VA – 75 years
 - DOD – unlimited, but preference is usually 50 years
- Can include both Governmental and non-Governmental uses
- In lieu of cash, agency can receive facilities, services, space and/or revenue as consideration
- Benefits can stay with local activity
 - DOD authority will allow benefits to be shared with other installations

Successful Examples

- Energy Facilities/Production (Mt. Home, North Chicago, Chicago West Side)
- Office Co-locations
- Medical Center consolidations and conversions
- Parking Structures
- Housing, Temporary Lodging, Nursing Homes, Assisted Living Facilities
- Mixed-Use Projects
 - Renovation of Pershing Hall - in Paris, France
 - Office, Research, Retail Center in Durham, NC

Incorporating DG/CHP

- Three VA public/private energy contracts via Enhanced-Use Leasing Authority
 - One operational (Case Study)
 - Two under construction
- DOD may have several under various phases
- DOE studying potential for integration of EUL/CHP as part of their programming capacity
- NASA legislation allows the use of EUL at two installations

CHP Development Potential

- Obtain private sector financing for facilities and infrastructure improvements.
- Privatize energy operations and maintenance – divest itself of liability and ownership.
- Benefit from energy sales to non-Federal customers.
- Obtain lower operational costs and avoid millions in energy-related capital costs.
- Increase reliability and customer service through back-up energy systems.
- Reduce energy consumption in accordance with Presidential directives.

Case Study

Mountain Home Energy Center, Johnson City, TN



Mt. Home Energy Center

- 24-year privatized energy services agreement.
- No long-term purchase requirements.
- Operational savings exceed \$16 million.
- No capital budgeting requirements.
- Ownership solution protected VA from ESCO default.

Pro Forma Development

- RFP Contained Basic Utility Data
- Due Diligence
 - Selected Developer only
 - Confirmed RFP Information
 - Gathered Additional Information as necessary
 - Costs
 - Energy requirements
 - Energy Savings Initiatives
- Team Consensus and Documentation Keys to Success

VAMC Contributed

- 35-year leasehold interest
 - 2 acres of land and facilities
 - \$300,000 value
- A commitment to purchase energy from the Developer/Operator
 - Annual Appropriations
 - Continued Operation of the VAMC.
- Commitment to Purchase
 - Based on two-year Renewable Contracts
 - No Termination for Convenience language
 - Structure complies with OMB requirements

VAMC Received

- \$22 million Energy Center
- \$5 million Energy Savings Initiatives
- Operational and Maintenance Services
 - Energy Center equipment and facilities
 - HVAC equipment throughout campus
 - Underground Steam and Chilled Water lines
- \$26.5 million in Life-cycle Costs
- \$16.2 million in discounted recurring costs
- Revenue from Third-Party Sales

Case Study Timeline

- November 1997 – RFP out to Prospective Developers
- February 1998 – Proposals Accepted
- July 1998 – Developer Selected
- September 1998 – Developer completed “Due Diligence”
- May 1999 – Final Scope of Work Negotiated
- December 1999 – Financial Closing
- June 2001 – Operation Commencement

Lessons Learned

- Project success contingent on commitment and solid partnership between agency and Developer.
- Independent third party confirmation of baseline information adds to credibility
- Third-Party energy purchasers increase benefits
 - Can improve financing terms
 - Generates revenue

Enhanced-Use Leasing

- Business Model
 - Combines the best aspects of Lease concepts
 - Can include ESPC-type improvements
 - Provides a long term solution to difficult infrastructure issues
 - Provides maximum flexibility to agencies
- Case Study
 - Mountain Home – more than a Pilot Project
 - Model for two Chicago Area projects
 - North Chicago – \$13.6 million
 - West Side – \$12.5 million
 - Both Operational by January 2004